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FOR A/OPR/ALS (ACTION) AND AF/EX (INFO)

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TAGS: [ALOW](#) [AMGT](#) [AFIN](#) [CG](#)

SUBJECT: REQUEST TO RECONSIDER DECREASE IN COLA

REF (A): STATE 160277; REF (B): 04 KINSHASA 1952

1. (U) Summary: The recent decision to lower Kinshasa's COLA from 42 to 30 percent (ref A) has serious implications for post morale and its efforts to recruit Foreign Service staff. The new COLA is inconsistent with findings by the highly reputable "Employment Conditions Abroad International" (ECA), the largest membership organization for international human resources, which lists Kinshasa as the world's sixth most expensive city. The standard exchange rate considerations used to determine COLAS do not apply in the Democratic Republic of the Congo, where the preferred currency is the U.S. dollar and where imports are received primarily from countries that use the Rand and the Euro, which has risen considerably in recent months vis-a-vis the dollar. These and other factors may explain why the market-survey system used to determine the COLA may not adequately reflect the true level of consumer prices in Kinshasa. Furthermore, per ref (B), in 2004 Post requested an exemption from automatic COLA adjustments based on exchange rate fluctuations given the fact that the local economy is almost entirely dollarized. It is our understanding said request was approved. Post requests Department to reconsider its decision to decrease Kinshasa's COLA. End summary.

Kinshasa: world's sixth most expensive city

2. (U) News that Kinshasa's Post Allowance has been decreased from 42 percent to 30 percent (Ref A) has been received with disappointment and incomprehension at post. According to a survey published on November 26, 2007 by Employment Conditions Abroad International (ECA), the world's largest membership organization for international human resources, (<http://www.eca-international.com/Asp/ViewArticle2.asp?ArticleID=199>), Kinshasa is now the world's sixth most expensive city. This survey, which measures the cost of food, other basic items and miscellaneous costs such as clothing and electrical goods, placed Kinshasa ahead of Libreville (no. 8), which has a 70 percent COLA; Geneva (no. 11), with an 80 percent COLA; London (no. 10), 70 percent COLA; Abidjan (no. 16); 50 percent; Abuja (19), 42 percent; and Dakar (20), 42 percent.

3. (U) ECA explains that some of the world's most expensive locations for expatriates are in Africa, with Luanda (Angola), Kinshasa (Democratic Republic of Congo) and Libreville (Gabon) featuring in the top ten. Abuja has climbed 13 places joining the top 20 most expensive places in the survey, mainly due to an inflation rate of more than 10 percent. The survey highlights the differences in living costs throughout Africa, with goods and services in Luanda more than three times the cost of the equivalent items in Maseru, Lesotho, which is still the cheapest location in the survey. Maseru is one of five African locations in the bottom ten globally including Gaborone (Botswana) and Durban where the weakness of the Pula and Rand, respectively, have contributed to a low cost of living. "Disparities in living costs in Africa can largely be explained by differences in the availability of goods and services, which can often be affected by a country's political situation, and differences in the strength of local currencies,"

according to ECA.

¶4. (U) According to the Post Allowance regulations, section 228: "The post allowance level is based on the foreign cost of living as compared with that of the Washington, D.C. area." This provision does not mention a country's exchange rate or inflation rate. It is calculated exclusively on the basis of the Cost of Living Index (COL Index) for Foreign Locations (based upon the local market basket survey) as compared with Washington, which is given a value of 100. If, indeed, the Kinshasa survey showed that the local prices are 31 percent higher than in the D.C. area, that would give Kinshasa a 131 COL Index. Libreville, to receive a 70 percent COLA, would need come in between a COL Index of 166 and 175, but the ECA International survey put Kinshasa above that of Libreville in terms of cost of living. In its explanation above, ECA states that it also takes into consideration the following information: rates of inflation (above 10 percent), difficulty of finding goods and services that expatriates are accustomed to, political and economic situation of the country, and the stability of the local currency.

Exchange Rate Considerations

¶5. (U) Ref (A) states that the Post Allowance change for the DRC is based on the survey submitted by Kinshasa. Recent communication with A/OMR/ALS, however, included references to Congolese franc (FC)/USD exchange rate fluctuations. This factor is not relevant. All transactions in the DRC can be, and most are, made using U.S. dollars, which serves as the nation's de facto currency alongside the official FC (Note: the FC, whose largest denomination is 500 francs, worth approximately USD 1.00, is used only for small purchases, tips, and change for amounts less than \$1.00). It should be noted, in fact, that an exemption from COLA adjustments tied to exchange rate fluctuations was requested in October 2004 (ref B). Since then, post has done a full annual Retail Price Survey during the ensuing period of exemption.

¶6. (U) If in fact there is an exchange rate component to the survey then it should be noted that since October 2005 the USD/EUR has gone from about 1.17 to 1.49 (about 27 percent depreciation) while the cost of living in Washington has increased by less than 10 percent during that same period. Most of the goods on the shelves in Kinshasa are flown in from South Africa, France, or Belgium; it is, therefore, the rate of exchange of the USD against the Euro and the Rand, not against the FC, that is determinant. When mission staff buy local products (eggs, bread, some vegetables, some meat, etc), the FC/USD exchange rate plays a role in determining prices, but even when this exchange rate rises, this does not necessarily confer advantages to mission personnel, since the rate of local inflation has been in double digits for many years now. Against the Euro, however, the USD is now at its lowest point ever, trading at 1.49 USD/EUR. The prices of most products on the shelves are converted from EUR to FC directly, or from EUR to USD and then finally to FC. When checking out at the supermarket the prices are then converted back into USD for payment. The prices on restaurant menus are all in USD.

Inflation Rate Considerations

¶7. (U) If local inflation is a factor influencing the Post Allowance, then it should be noted that, according to the Embassy's Economic Section calculations, there has been a cumulative total of 689 percent inflation in Kinshasa over the last 7 years. In the two years since October 2005 there has been 41.3 percent inflation in the DRC. This does not include the month of November 2007, which with December, points to one of the highest monthly rates of inflation for the year because of increased fuel prices. Fuel on the local market has gone from USD 4.41/gal in October to USD 4.64/gal in December, causing a dramatic rise in transportation costs, which has been passed on to consumers. Public transportation by large bus has gone from 200 FC/trip to 300 FC/trip, taxi rides from 350FC/trip to 400FC/trip, and taxibus rides from 150FC/trip to 200FC/trip. Although American employees cannot use local public transportation due to security restrictions, there is a significant trickle-down effect vis-à-vis the cost of local labor, goods and services. Fuel price increases alone, as the Economic Section

reported in their November monthly update cable, are responsible for a 4.2 percent inflation rate for the month of November, and we expect that the inflation rate for December will be similar.

Additional Factors for Consideration

18. (U) The Post Allowance regulations (sect. 222) also state that "in addition to local prices, the comparative cost of living considers the normal expenses ... and additional costs resulting from local climatic and health conditions and customs," thereby introducing a "quality of life" aspect into the calculation. The Bureau of Labor Statistics (BLS), in its discussion of the Consumer Price Index (the definitive calculation of Cost of Living in the U.S.) says that "a complete cost-of-living index would go beyond this (a market basket survey) to also take into account changes in other government or environmental factors that affect consumers' well-being...such as health, water quality, and crime that would comprise a complete cost-of-living framework." Given the dramatic episodes of violence in Kinshasa over the past year and a half, including two voluntary evacuations, coupled with the grinding poverty and sanitation problems, there is already a strong perception among the employees in Kinshasa that the Post Differential of 25 percent is already too low. Furthermore, post has an extremely difficult time attracting viable officers; the decrease in the Post Allowance will exacerbate an already bad situation.

19. (U) Post hereby requests that the decision to lower the Post Allowance from 42 percent to 30 percent be reconsidered taking into account the foregoing considerations.

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